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| **NPRR Number** | [**1224**](https://www.ercot.com/mktrules/issues/NPRR1224) | **NPRR Title** | **ECRS Manual Deployment Triggers** |
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| **Date** | April 4, 2024 |
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| **Market Segment** | Consumer  |

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| **Comments** |

Joint Consumers appreciate ERCOT’s efforts in developing Nodal Protocol Revision Request (NPRR) 1224, an add on to ERCOT Contingency Reserve Service (ECRS) operations that may reduce price excursions and reduce costs to consumers. Joint Consumers view this NPRR as a step in the right direction, but request additional information to ensure there are no unintended consequences. While a more thorough review may not be available under ERCOT’s urgent timeline, Joint Consumers believe that stakeholders can still approve the NPRR in time for the June Board of Directors Meeting. Additionally, Joint Consumers note that aside from NPRR1224, there are additional efforts that must be made to address the market inefficiencies the Independent Market Monitor (IMM) identified last year.

Since the beginning of organized energy markets in ERCOT, now well over two decades ago, consumers have stood for efficient market outcomes. Efficient markets achieve reliability targets at lowest cost, which directly benefits all consumers in ERCOT. This concept is embedded in the legislative intent provisions of the restructuring language added to PURA in 1999: “The legislature finds that … electric services and their prices should be determined by customer choices and the normal forces of competition*.”* (PURA § 30.001(a)). The Legislature also directed that “Regulatory authorities … shall authorize or order competitive rather than regulatory methods … to the greatest extent feasible and shall adopt rules and issue orders that are both practical and limited so as to impose the least impact on competition” (PURA § 39.001(d)).

Late last year, the IMM for the ERCOT Region released its report finding that the operation of ECRS created an $8 to $10 billion market inefficiency, later revised to $12.5 billion. In his presentation to the Technical Advisory Committee (TAC) on December 4th, Dr. David Patton of Potomac Economics explained that the Ancillary Service methodology produces excessive reserve requirements and described these costs as “the worst performance we’ve ever seen since the beginning of organized electricity markets almost 25 years ago. … equivalent to $400 for every man, woman and child in Texas.” Dr. Patton was very clear in his presentation to TAC that these extraordinary costs were not the result of the normal forces of competition but instead resulted from artificial shortages in the energy market because the energy market can’t see or access the excess reserves. He reported that on the days that ERCOT released ECRS for capacity purposes, the ERCOT market was not in shortage. The elevated prices were instead the result of choices about the implementation of ECRS, particularly the quantity of reserves withheld from the Real-Time Market (RTM). As supporters of efficient competitive markets, Joint Consumers were struck that the IMM’s analysis infers that reliability targets are not being met efficiently, at lowest cost, but instead at an excessive cost. The operation of ECRS thus appears to be a regulatory approach that is neither practical nor limited so as to impose the least impact on competition, as called for by the Legislature in PURA.

After much discussion and a failed motion to endorse the 2024 Ancillary Services Methodology, the consumer representatives on TAC offered a compromise motion, approved by the TAC, to endorse the 2024 Ancillary Services Methodology contingent on revisiting the ECRS methodology by the end of April. Stakeholders expected that ERCOT would conduct an evaluation to determine whether shortage experienced during these ECRS deployments was indeed induced by ECRS operations and policy. And if the IMM’s conclusions are validated, stakeholders anticipated that ERCOT would make an effort to revisit the ECRS methodology to mitigate the market inefficiency going forward. Unfortunately, despite requests for ERCOT Staff to collaborate with stakeholders on the study to validate the IMM’s assessment and review of ECRS policy, ERCOT did not have the resources to discuss the ECRS methodology until the ECRS workshop on March 19th. Accordingly, Joint Consumers believe that additional time would be necessary to fully analyze NPRR1224. Particularly, Joint Consumers are concerned that the NPRR was not supported by a cost analysis or backcast of the 2023 outcome.

Based on an initial reviews of NPRR1224, Joint Consumers find that NPRR1224 is a back-end adjustment to ECRS deployment policy that should be supported by additional cost analyses. Further, NPRR1124 doesn’t fully resolve the competitive market failure leading to the $12.5 billion in above market costs identified by the IMM. At the December 4th TAC discussion of the 2024 Ancillary Services Methodology, Dr. Patton made a number of recommendations to mitigate the market inefficiency introduced by ECRS operations. Those recommendations include a change in the approach to reliability modeling to quantify the reliability risks to be addressed by the Ancillary Service procurements using a stochastic model and four short-term adjustments in the methodology for 2024 to mitigate the inefficient costs caused by the ECRS methodology. None of these recommendations from the ERCOT IMM are addressed in NPRR1224.

Joint Consumers propose the following steps to move forward on NPRR1224:

* PRS reject urgency at the April 5th meeting of the PRS.
* ERCOT release to stakeholders the complete analysis performed related to ECRS in preparation for this NPRR referenced in ERCOT’s presentation to the R&M Committee on December 19 (Item 14.1) and in the presentation to TAC on March 19 (Review of ECRS minimum Quantity Determination and Deployment).
* ERCOT and the IMM conduct a backcast of the proposed NPRR to 2023 using the same methodology so the results can be fully comparable. ERCOT and the IMM should also fully evaluate and report on the cost impact that early release of ECRS will have on pricing and whether there is a net benefit. The backcast should consider behavioral changes as assumptions if possible.
* Following the review of the backcast analysis, TAC consider NPRR1224 in time for the June meeting of the Board of Directors, if approved by TAC.
* Stakeholders request that the Commission in its upcoming Ancillary Services study undertake a comprehensive review of the ECRS methodology, including requiring ERCOT and the IMM to provide to the Commission and stakeholders, with sufficient time for review and comment, validation of the IMM’s analysis, assessment of alternatives to address any identified market failures, and the backcast of the proposed NPRR referenced above.

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| **Revised Cover Page Language** |

None

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| **Revised Proposed Protocol Language** |

None